



Office of the Washington State Auditor
Pat McCarthy

Accountability Audit Report

Town of Rosalia

For the period January 1, 2015 through December 31, 2017

Published May 13, 2019

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**Office of the Washington State Auditor
Pat McCarthy**

May 13, 2019

Mayor and Town Council
Town of Rosalia
Rosalia, Washington

Report on Accountability

Thank you for the opportunity to work with you to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role of providing state and local governments with assurance and accountability as the independent auditor of public accounts. In this way, we strive to help government work better, cost less, deliver higher value and earn greater public trust.

Independent audits provide essential accountability and transparency for Town operations. This information is valuable to management, the governing body and public stakeholders when assessing the government's stewardship of public resources.

The attached comprises our independent audit report on the Town's compliance with applicable requirements and safeguarding of public resources for the areas we examined. We appreciate the opportunity to work with your staff and we value your cooperation during the audit.

Sincerely,

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

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AUDIT RESULTS

This report describes the overall results and conclusions for the areas we examined.

In most of the areas we examined, Town operations did not comply with applicable state laws, regulations, and its own policies, and did not provide adequate controls over safeguarding of public resources for the years ended December 31, 2017 and 2015.

As referenced above and described in the attached findings, we identified areas in which the Town could make improvements. These recommendations are included with our report as findings 2017-002 and 2017-003.

For the year ended December 31, 2016, the Town did not properly maintain records, schedules, reports, or other documentation supporting its transactions, financial activities or operations. The Town did not provide adequate controls over safeguarding of public resources and did not perform bank reconciliations allowing us to evaluate the appropriateness and completeness of revenues, expenditures, or cash balances. Accordingly, we were unable to examine the Town's compliance with applicable state laws, regulations, or its own policies for the year ended December 31, 2016.

This condition and associated recommendations are fully described in the finding included with our report as finding 2017-001.

About the audit

This report contains the results of our independent accountability audit of the Town of Rosalia from January 1, 2015 through December 31, 2015 and January 1, 2017 through December 31, 2017.

As referenced above and described in finding 2017-001, we were unable to examine the Town's compliance with applicable state laws, regulations, or its own policies for the year ended December 31, 2016.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, loss or abuse. This includes the design, implementation and maintenance of internal controls relevant to these objectives.

This audit was conducted under the authority of RCW 43.09.260, which requires the Office of the State Auditor to examine the financial affairs of all local governments. Our audit involved performing procedures to obtain evidence about the Town's uses of public resources, compliance with state laws and regulations and its own policies and procedures, and internal controls over such matters.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, based on our risk assessment for the years ended December 31, 2017 and 2015, the areas examined were those representing the highest risk of fraud, loss, abuse, or noncompliance. The following areas were examined during this audit period:

- Financial condition and sustainability
- Payroll – wages paid, leave accruals and cost allocation
- Cash receipting – deposit activities
- Procurement – compliance with bid laws for public works projects
- General disbursements – vendor payments and credit card transactions

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-001 The Town did not have adequate controls over the retention of accounting records, which prevented our Office from performing auditing procedures for fiscal year 2016.

Background

Town management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws and policies and of safeguarding of public resources. Town management is also responsible for the integrity and retention of the original vouchers, receipts, and other documents necessary to prove the validity of every transaction relating to the receipt, use, and disposition of public funds and property. This requirement extends to all accounting entries.

Description of Condition

The Town's total revenues and expenditures for 2016 were \$696,247 and \$710,264, respectively. The Town did not retain its supporting documents for vendor payments, credit card payments, customer billing and receipts, bank statements, the adopted cost allocation plan, and employee payroll records for 2016. Therefore, the Town cannot demonstrate the validity of this financial activity.

Cause of Condition

The Town believes that files were boxed up for storage after year-end procedures were completed; however, the employee responsible for this process is no longer with the Town, and the records could not be located during the audit.

Effect of Condition

The Town cannot demonstrate the validity of its financial activity for the 2016 fiscal year under audit.

Because of a lack of supporting documentation, we could not perform detailed testing over financial activity and therefore cannot determine if losses occurred. In addition, we could not confirm the Town spent funds only for allowable purposes or that all receipts collected were deposited in a timely manner.

Recommendation

We recommend the Town improve internal controls and develop procedures to effectively store records to support its financial activity and comply with records retention schedules.

Town's Response

After the turnover of personnel at City Hall, the town has improved internal controls and put procedures in place to safely and effectively retain and store its financial records in compliance with retention schedules.

Auditor's Remarks

We appreciate the steps the Town has is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

RCW 43.09.200 Local government accounting – Uniform system of accounting

RCW 40.14.070, Destruction, disposition, donation of local government records — Preservation for historical interest—Local records committee, duties — Record retention schedules — Sealed records

The *Budgeting, Accounting and Reporting System* (BARS) manual, 3.1.3, Internal Control

BARS manual, 3.1.4, Original Supporting Documentation

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-002 The Town lacked adequate internal controls and monitoring over significant financial activities to ensure safeguarding of public resources and compliance with state law.

Background

Town management is responsible for designing and following internal controls that provide reasonable assurance of compliance with state laws, policies and the safeguarding of public resources. Town management is also responsible for the integrity and retention of the original vouchers, receipts, and other documents necessary to prove the validity of every transaction relating to the receipt, use and disposition of public funds and property. This requirement extends to all accounting entries.

The Town's average expenditures were \$1,226,900 for fiscal years 2015 and 2017. The Town did not retain records for its 2016 financial activities; therefore, we could not perform audit procedures, which is reported in finding 2017-001 in this report.

The Town's 14 employees provide fire protection, emergency medical, streets and parks maintenance, water and sewer utilities and general administrative services to about 560 citizens in Whitman County.

Description of Condition

Our audit found the Town did not have effective internal controls in place to ensure it safeguarded public resources and complied with state law. Specifically:

- The Town lacked adequate segregation of duties over key financial operations, including bank reconciliations, payroll processing, and disbursement activities.
- The Town lacked effective reviews to ensure disbursements, including payroll, vendor and credit card payments, are adequately supported, approved, and for a valid business purpose.

Cause of Condition

The Town had limited staff available and did not dedicate the necessary resources to segregate duties or establish effective compensating controls to ensure accuracy of its financial transactions. Because the employee responsible for filing and storing prior-year records no longer works for the Town, the current employees could not locate all supporting documents requested for audit.

Effect of Condition

The lack of control and oversight of the Town's finances increases the risk that misappropriation or misuse of Town resources could occur and not be prevented or detected in a timely manner. Our audit specifically noted the following:

Bank reconciliations

The Town did not retain evidence that it performed bank reconciliations during the audit period, so it cannot demonstrate it ensured revenues and expenditures recorded in the Town's general ledger agreed with transactions posted to the bank account.

Payroll

The Town could not demonstrate the validity of its payroll payments totaling \$101,834 made to employees for fiscal year 2015 because it did not keep timesheets. We tested all 127 timesheets for fiscal year 2017 payments totaling \$159,143 to ensure its 14 employees submitted timesheets to support payroll payments made each pay period and employees and supervisors certified timesheets for accuracy. We found:

- Employees did not certify 15 timesheets.
- Supervisors did not certify 109 timesheets.
- One employee who was paid \$38,154 did not submit any timesheets.

We found other less significant instances in which timesheets were blank or could not be located, further indicating a lack in controls over payroll activities.

Vendor payments

We tested 39 vendor payments totaling \$53,947 in 2015 and 2017 to determine if they were adequately supported by receipts or invoices, approved by someone other than the employee processing the payments, and for valid business purposes. We found:

- Receipts or invoices were missing from 14 payments.
- Documentation to demonstrate payments were for a valid business purpose was missing from 10 payments.
- Proper approval on the voucher certification form was missing from nine payments.

Credit card transactions

We tested 68 transactions totaling \$16,779 in 2015 and 2017 to determine if they were adequately supported by receipts or invoices, approved by someone other than the employee processing the payments, and for valid business purposes. We found:

- Adequate support was not retained for 37 transactions, of which 12 transactions did not have detailed receipts or invoices and 25 transactions had no support.
- The valid business purpose was not clearly documented for 30 transactions.

We also found that all documentation was missing for eight of 24 credit card statement months reviewed for 2015 and 2017 totaling at least \$9,679.

Recommendations

We recommend the Town:

- Establish effective internal controls for financial operations, including adequate segregation of duties for payroll, vendor, and credit card payments
- Ensure employees prepare and keep documentation to support the validity of financial transactions and comply with records retention schedules
- Retain documentation to demonstrate a monthly reconciliation of its bank accounts is performed to ensure financial activity is accurately recorded in its general ledger

Town's Response

The Town has improved internal controls regarding payroll activities by implementing a system requiring employee submitted timesheets to be reviewed by the Clerk/Treasurer for signature then submitted to a second party, the Mayor/Mayor Pro-Tem, for final approval.

With the addition of a Deputy Clerk, there will be a more effective segregation of duties regarding vendor and credit card payments as well as documentation for purchases.

After the turnover of personnel at City Hall, the town has improved internal controls and put procedures in place to safely and effectively retain and store its financial records in compliance with retention schedules.

Auditor's Remarks

We appreciate the steps the Town has is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

The *Budgeting, Accounting and Report System* (BARS) manual, 3.1.3, Internal Control

BARS manual, 3.1.4, Original Supporting Documentation

BARS manual, 3.8.4, Purchase Cards

BARS manual, 3.8.5, Voucher Certification and Approval (1)

RCW 40.14.070, Destruction, disposition, donation of local government records — Preservation for historical interest—Local records committee, duties—Record retention schedules — Sealed records

RCW 42.24.080, Municipal corporations and political subdivisions — Claims against for contractual purposes — Auditing and payments — Forms — Authentication and certification

RCW 43.09.200, Local government accounting — Uniform system of accounting

RCW 43.09.2855, Local governments — Use of credit cards

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

2017-003 The Town lacked effective internal controls to monitor compliance with its fiscal agent agreement to ensure it did not use the Town's resources for the payment of expenditures under the agreement.

Background

The Town of Rosalia entered into an agreement with the Palouse Regional Transportation Planning Organization (RTPO) in July 2017 to provide fiscal agent services and a part-time finance officer to perform these services for the RTPO. The Town performed various bookkeeping functions under the direction of the RTPO Director, including tracking accounts payable and receivable, paying bills, requesting drawdowns of funds from granting agencies, balancing finance account statements and assisting in annual financial reporting.

Description of Condition

The agreement states the Town must maintain the RTPO's financial activity in a separate fund and the RTPO will compensate the Town quarterly with five percent of the total RTPO annual income for providing fiscal agent services. Our testing confirmed the Town maintained RTPO activities in a separate fund and that the RTPO compensated the Town the agreed-upon percentage for services performed.

Additionally, our audit found the RTPO revenues were not sufficient to cover all of its expenditures that the Town paid on its behalf as the fiscal agent. The Town did not have a process in place to notify the RTPO that its expenditures were exceeding the resources available to pay for them and that the Town was covering these costs. Also, the Town did not evaluate whether it would be allowable to use its resources to pay for the excess RTPO expenditures.

Cause of Condition

The Town had limited staff and resources and did not perform sufficient monitoring over this activity. The RTPO's fiscal year end was June 30, 2018, and the Town's fiscal year end was December 31, 2017. The Town believed the RTPO would receive sufficient revenues to cover the excess expenditures by the RTPO's fiscal year end.

Effect of Condition

Because the Town did not establish controls to monitor contract compliance and the financial activities of the RTPO, it used its own resources to pay for the RTPO's expenditures that exceeded revenues received. The RTPO fund operated at a deficit, and the Town provided financial support for this legally separate entity. As of December 31, 2017, the RTPO fund had a deficit of \$22,869.

We reviewed the financial activities of the RTPO through its fiscal year end of June 30, 2018, and found the fund deficit had grown to \$31,575.

Additionally, the Town did not request reimbursement for funds it paid on behalf of the RTPO as its fiscal agent, and there is no agreement in place requiring the RTPO to provide such a reimbursement.

Recommendations

We recommend the Town establish monitoring controls to ensure compliance with the terms of the RTPO fiscal agent agreement. Further, we recommend the Town refrain from using its own resources to pay for RTPO expenditures and establish an agreement for the repayment of expenditures the Town paid on the RTPO's behalf.

Town's Response

The Town will be meeting with the RTPO to modify the existing agreement to address the issues brought forth during this audit.

Auditor's Remarks

We appreciate the steps the Town has is taking to resolve this issue. We will review the condition during our next audit.

Applicable Laws and Regulations

Budgeting, Accounting and Reporting System (BARS) manual, 3.1.3, Internal Control

RCW 43.09.210, Local government accounting — Separate accounts for each fund or activtiy — Exemptions

INFORMATION ABOUT THE TOWN

The Town of Rosalia was incorporated in 1894 in Whitman County. An elected, five-member Council and a separately elected Mayor govern the Town and oversee the Town's daily operations. The Town provides an array of services including fire protection, emergency medical services, street and parks maintenance, water and sewer utilities and general administration.

The Town receives a variety of revenue sources, including property taxes, sales taxes, business taxes, utility charges for services, and grants. The Town's revenues were approximately \$1.4 million and \$1.6 million for 2015 and 2017, respectively.

Contact information related to this report

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Information current as of report publish date.

Audit history

You can find current and past audit reports for the Town of Rosalia at <http://portal.sao.wa.gov/ReportSearch>.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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